

ANGARSKASACHALLENGE FOR THE EAST ASIAN ENERGY COMMUNITY*

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Introduction

A Northeast Asian multilateral energy regime, an energy community, has been in the process of formation for at least two decades. In the early stages of regime formation, there were many conferences held in the region. Eventually an epistemic community of Northeast Asian energy specialists and analysts emerged from Japan, China, South Korea, Russia, and sometimes the U.S.

One source of an Asian energy epistemic community has emerged from ERINA, the Economic Research Institute for Northeast Asia, based in Niigata, Japan. The project, Energy Security and Sustainable Development: Prospects for Cooperative Policies, has the goal of identifying impediments to regional energy security cooperation and devising strategies to overcome them.¹ Regional cooperation requires the harmonization of each country's national energy legislation and the formulation of energy policies that recognize energy interdependence.²

A similar epistemic community is found in the East Asia energy Futures Working Group organized by the Nautilus Institute in Berkeley, California. This network of researchers from the US, China, Japan, South Korea, DPRK, and Russian Far East, in a series of workshops, worked on creating data sets and designing national alternative energy paths. Eventually, this will lead to regional paths integration, regional cooperation in an electricity grid, gas transmission grid, conservation. The project will calculate costs and benefits of regional cooperation in contrast to each country independently developing its energy system. Included in the analysis is the assessment of energy security achieved through regional cooperation.³

* The views expressed in this paper are solely those of the author and do not reflect the policies or positions of any organization, the Naval Postgraduate School or the US Government.

¹ Vladimir Ivanov has written extensively on this topic, recently in "An Energy Community for Northeast Asia: From a Dream to a Strategy," *ERINA Report* vol.52 (June 2003), p.40-45

² Ibid. p. 44

³ David Von Hippel. *Summary Report of the East Asia Energy Futures Project Activities and Accomplishments* Nautilus Institute, 2002, found at <http://www.nautilus.org/energy/eaef/futures.html>

The formulation of a Northeast Asian energy community has always revolved around a formula of complementarity for a regional division of labor: Russian resources, Chinese labor, and Japanese/Korean investment and technology. This formula had served in lieu of rules for a Northeast Asian energy community but it was insufficient, as it minimized China's identity as a net oil importer that put it in competition with other net oil importers. These have might have been an implicit set of rules emerging but they were never called "rules."

The next stage of regime formation should have been rule formulation as a multilateral regime is a collection of rules and norms. It was not until a series of Middle-Eastern-related crises happened –9/11 and the Iraq war, which were followed by an intensified search for non-Middle Eastern sources—that rule formulation of Northeast Asia began to be articulated more explicitly. Energy experts began to refer to rules.

Middle Eastern instability created new challenges for Chinese petroleum strategies. The world petroleum industry appeared to be entering a new stage after the US had secured what Chinese called the "control rights" over Iraq oil production, and tightened its control over Middle East oil and thus the world oil market. China's petroleum strategy of "going out" in the world to explore and develop oil resources had encountered numerous challenges—CNPC was forced out of the auction of Slavneft, CNOOC was eliminated from participation in the North Caspian Sea project.

In the past, because of self-reliance, world oil market disruptions were not devastating to Chinese oil consumption, allowing China to choose a neutral role towards crisis in oil geopolitics. But now with increasing oil import dependence, China is faced with the vagaries of international resource competition and China itself was not part of the International Energy Agency (IEA) system of strategic oil reserves.⁴ China was only partially integrated into the world oil system.

In the past, distrustful of multilateral energy regimes and feeling less competitive in world markets, China had pursued *bilateral* oil diplomacy in Russia, Central Asia, Southeast Asia, Africa and the Middle East. In bilateral trade with countries such as Iran, Sudan and Libya, there was a possibility to

⁴ Amy Myers Jaffe, "China and Long-Range Energy Security," Hearings on "China's Energy Needs and Strategies," US-China Economic and Security Review Commission, October 30, 2003, Washington D.C.

⁵ See Christofferson, "Socialist Integration and Energy Regimes," *Pacific Review* v.3 n.1 (1990)

make arms-for-oil deals. The bilateral oil relationship, Sino-Russian “strategic partnership”, had seemed like a buffer to China’s increasing dependence on the world oil market, but the endless negotiations over 9 years on the Angarsk-Daqing oil pipeline did not produce a final agreement. The potential loss of the “An-Da” pipeline put the “struggle for Angarsk” on a plane with the Iraq War, amplified by Chinese newspapers’ outpouring of dismay that the project might fall through.

The issue of Chinese energy security had been inserted into the 10th five-year plan (2001-2005), for the first time recognizing it as a security issue. The long-term Chinese strategies were continued: diversification of energy import sources away from the Middle East, increased overseas investments by the Chinese oil companies, increased domestic investment, and energy conservation. To these enduring policy goals were added (1) the need for a strategic petroleum reserve and (2) participation in an East Asian energy community. The latter required a paradigm shift in Chinese thinking, i.e., that a multilateral energy regime could protect Chinese national interests.

The year 2003 was a difficult time for following the workings of Northeast Asian regional energy cooperation as endless meetings in Moscow by delegations from Beijing and Tokyo produced no agreement on the direction of oil and gas pipelines from Angarsk. Russia developed a plan for Siberian and Russia Far Eastern oil and gas resources but postponed decision on pipelines. Japan’s Ministry of Economy, Trade and Industry (METI) had announced in spring 2003 that a 10-year long-term energy policy that would consider alternatives to dependency on Middle Eastern supply would be finished by the summer. By September, Japan’s plan was still not published because it was awaiting decisions made in Moscow. China had announced formulation of an Energy Security Plan with Chinese Premier Wen Jiabao personally overseeing its prompt formulation, but domestic planning was contingent on regional energy plans and decisions made in Moscow. Each of these three countries had domestic plans requiring coordination with the other countries in a regional framework that did not exist in 2003.

The “struggle for Angarsk” would answer the question analysts had pondered throughout the 1990s: were Northeast Asian energy relations fundamentally cooperative or competitive. The concept of a Northeast Asian energy relations fundamentally cooperative or competitive. The concept of a Northeast Asian regional energy regime has long history, and it is difficult to believe that it could so easily be pushed aside over the routing of a pipeline

.China, Japan and Russia, in what could be called a two-level bargaining game, each took a path towards regional cooperation that involved reconciling conflicting domestic interests into a national consensus, necessary before there could be a regional consensus.

China's Path: making the case for cooperation, reform

Earlier work done by the author, *Crouching Oil Dragons-Hidden Gas Bears: Sino-Russian Oil & Gas Relations in Northeast Asian Energy Community*, raised the issue of whether Sino-Russian oil and gas cooperation had the character of an exclusive bilateral alliance, or whether it could be the basis of a regional, Northeast Asian or Asia Pacific, energy community.⁶ The thesis was not Sino-Russian energy cooperation was extraordinarily protracted because the two sides use a different calculus in deciding energy projects. China's state-owned enterprises are more market-oriented and consider energy security with an economic calculus and cost-benefit analysis, while Russia's private oil companies are more statist and Russians tend to equate energy security with physical control of petroleum. This could be explained by (1) structural factors-the domestic and world oil markets, or (2) subjective factors-a transformation of consciousness, or (3) the result of interaction between both types of factors. The conclusion was that the region would have to wait a long time to form an energy community built on the Sino-Russian oil project.

It has been a long, convoluted path for China to accept that Chinese energy security had become mutually interdependent with Asia-Pacific regional energy security. Although China had been until the mid-1990s very negative on participation in multilateral regimes, that changed through membership in APEC and ARF. By 1998, some Chinese would also support the concept of a regional "East Asian Energy Community" and creation of a regional energy security system.⁷ In early 1998, Ji Guoxing acknowledged

Asian Pacific energy security is inseparable from China's energy security... without China's participation and cooperation, Asian Pacific energy security is unrealistic and unworkable; and without others' cooperation, neither can China's own energy security be guaranteed.⁸

⁶ "Crouching Oil Dragons-Hidden Gas Bears: Sino-Russian Oil & Gas Relations in a Northeast Asian Energy Community," in *Dalnii Vostok Rossii I severo-vostochnaya azia (Russian Far East and Northeast Asia)*, Sergey Sevastionov, ed., Vladivostok 2001.

⁷ Gao Shixian, "China," in *Rethinking Energy Security in East Asia*, (Tokyo: Japan Center for International Exchange, November 2000), p. 43-58

⁸ Ji Guoxing, "China versus Asian Pacific Energy Security," *The Korean Journal of Defense Analysis* vol.10, no.2, (Winter 1998), p.112

He suggested China was ready to put energy security on the policy agenda in regional forums at a higher priority level, and that it would move regional cooperation to a new level, either in APEC or the ASEAN Regional Forum, although both organizations needed strengthening to be effective. The benefits would be to: 1. Alleviate “regional energy tensions” that emerge, especially between China and Japan; 2. Contribute to building cooperative security in regional forums; 3. further integrate China into the international community.⁹

In February 1999, a major report was issued that indicated Chinese rethinking of energy security issues. China’s Energy Research Institute (ERI), under the State Development Planning Commission (SDPC, now SDRC), issued *Study in Long Term Energy Development Strategies of China* (Zhongguo Zhongchangqi Nengyuan Zhanlue), Zhou Fengqi and Zhou Dadi, eds. The report called for a radical break with past Chinese practices for energy security, changing from a coal-dependent, self-sufficient energy policy to the expansion of natural gas production and increasing imports of oil and LNG.

The two Zhous argued that China’s closed system and reluctance to import oil would undermine environmental security. They argued for reliance on pipeline systems similar to European and American practice, and increased integration with world energy markets, stating “The globalization of the world economy and multipolar trend in political relations is working in favor of China’s access to international markets and Chinese energy security.”¹⁰ And they further argued “China should actively participate in regional energy groupings” thus linking China’s energy security to Japan’s energy security.

At the Japan-China Petroleum Economics Forum 2001, held September 3-5, 2001, Chinese and Japanese oil economists exchanged opinions on energy security, exchanging information on the strategies of the Japanese oil industry and strategies of the Chinese oil industry. The forum’s report concluded...energy issues are not unilateral issues, and cannot be solved unilaterally. In this sense, regarding potential energy security for the Northeast Asian energy market, alliances and/or cooperation between Japan and China are imperative.¹¹

⁹ Ibid., p.141

¹⁰ Zhou Fengqi and Zhou Dadi, eds. *Study on Long Term Energy Development Strategies of China* (Zhongguo Zhongchangqi Nengyuan Zhanlue). (Beijing: Zhongguo Jihua Chubanshe, 1999), translated by US Embassy Beijing, at <http://www.usembassy-china.org.cn/english/sandt/adpcenergy.html>.

¹¹ Shishi Kaku. *Japan-China Petroleum Economics Forum 2001*. Tokyo: Institute of Energy Economics, November 2001, p.10

The purpose of the Forum is not only information exchange to increase policy transparency, but also to impress upon China that Chinese energy policies impact the entire region, and the region needs knowledge of China's strategies to plan for regional energy security.

The Japanese project to encourage Chinese participation in regional energy security appeared effective, as Zhou Dadi, the director of the Chinese Energy Research Institute, recently stated, A comprehensive regional approach by all of us would be better than letting the vagaries of the marketplace decide what happens...if everything is left to each company, each country, each interest group, China will have to think of itself and give priority to its own immediate pressure and demands. It would be much better for everybody if we adopt a regional approach.¹²

Chinese participation in regional planning required stronger domestic plans. In March 2001, Premier Zhu Rongji, at the fourth session of the Ninth National People's Congress, had called for a national oil strategy. Energy planners followed through 9/11 made it even more urgent.

In October 2001, the State Economic and Trade Commission claimed a national law was needed to guarantee the country's oil security. The SPDC had submitted a draft to the NPC for the law which would bring order to the domestic oil market and create a fair environment for domestic and foreign companies after China joined the WTO. The law would be managed by an energy commission.¹³

At the end of 2002, Beijing had finalized its "21st Century Oil Strategy," a plan jointly produced by the State Economic and Trade Commission and the state planning Commission—

- Resurrect the State Energy Commission and give it responsibility for creating a futuristic strategic oil system for China.
- Invest \$100 billion in the system. Invest in 4 large domestic oil fields.
- Implement the "go out" strategy through joint ventures overseas.
- Build a strategic oil reserve.
- Develop oil shipping capacity and strong navy and air force capable of protecting China's marine resources and energy supplies.¹⁴

¹² Quoted in Selig. S. Harrison, "Gas and Geopolitics in Northeast Asia: Pipelines, Regional Stability, and Korean Nuclear Crisis," *World Policy Journal* (Winter 2002/03), p.36

¹³ "PRC Analyst Views State Law Proposed to Strengthen Oil Security," *China Daily Business Weekly Supplement*, October 30, 2001

¹⁴ Kung Shuangyin, "Invest \$100 Billion in Building Strategic Oil System," *Ta Kung Pao*, Nov.13, 2002

This domestic plan had not been formulated in consultation with other countries but rather was the product of the planning system, the command economy. It would rely on strengthening state capacity to manage oil, state funds to create a strategic reserve, and a stronger military capability to protect energy supply.

In November 2002, *Zhongguo Nengyuan* published an article on the impact of the Middle East war on the world oil market leading to lower prices and cheap oil. This impacted China's petroleum industry negatively since it was not competitive—its exploration and production costs at \$17/barrel were higher than the world average, in fact, the highest in the world. Some domestic fields were prospected when it was not economically profitable. The Chinese oil industry could only survive when oil prices were high. China faced an energy management crisis that required a comprehensive energy strategy.¹⁵

In April 2003 a roundtable discussion at People's University focused on the impact of the Iraq war in international energy and Chinese energy interests. The meeting identified five questions on china's energy security requiring further research: finding the appropriate energy mix, determining the greatest threat to Chinese oil imports and security of the SLOCs, promoting an East Asian energy Community, the appropriate governmental organization for managing energy—energy commission or bureau, and creating strategic oil reserves.¹⁶ It was noted that China had minimal interest in an East Asian Energy Community and didn't view it as a means to energy security.

Organizationally, China has strengthened state capacity to pursue energy security by establishing an Energy Bureau under the State Development and Reform Commission. Chinese oil companies had lobbied for the bureau in order to facilitate the Chinese state's approval process for overseas investments. The bureau is examining Russian and American energy strategies for lessons. Chinese have a sense that Russian, American, and Japanese energy diplomacy and oil security strategies are more fully developed than China's, leaving China to face competition in an uneven playing field.¹⁷

¹⁵ Yan Lin, "Middle East War, Cheap Oil and China's Strategy," *Zhongguo Nengyuan* no.11, Nov.25, 2002, p.12-15

¹⁶ Zha Daojiong, "China's Energy Security after the Iraq War: summary report of a roundtable discussion," Center for International Energy Security, Renmin University of China, Beijing, April 8, 2003

¹⁷ Feng Yujun, Ding Xiaoxing and Li Dong, "Russia's New Energy Diplomacy and Its Impact," *Contemporary International Relations* vol.12, no.10 (October 2002)

The Iraq War influenced China as it did Japan, driving it to consider better strategies for oil security. Chinese analysis examined numerous attempts to invest overseas that had suffered setbacks. The SLOCS from the Middle East were fragile. The Caspian Sea had become an empty promise. In addition, Beijing was surprised when “Japan and Korea tried to derail the Angarsk-Daqing oil pipeline.”¹⁸ Even before 9/11, the need for an oil security system was widely discussed in the Chinese press, including participating in international energy regimes, APEC conferences on energy, dialoguing with OPEC, strengthening cooperation with the Middle East, Russia, Central Asia, and Africa.¹⁹

Following the Iraq War, the need to map out a new oil strategy became even more urgent²⁰

Russia's Path: Choosing a Domestic Plan

Russia's domestic plan, *Main Provisions of the Russian Energy Strategy to 2020*, originally approved in November 2000, with a newer revised version approved May 22, 2003, seemed to settle Russian domestic priorities. However, the question of which pipeline to give priority to would not be finalized in clear manner.

It seemed to be a long, drawn-out convoluted process, mixing geopolitics with technical questions, with lots of simultaneous domestic and international bargaining. Moscow had conducted parallel negotiations with CNPC and JNOC during 2003 without a means to make the two dialogues coherent. There were actually 3 proposals on the table:

1. Japanese proposal: Angarsk to Nakhodka 50MMT capacity with export possibilities to all of Asia-Pacific including the US (preferred by Japan, Rosneft, and Transneft) called the “northern route.”

2. Chinese proposal: Angarsk to Daqing 30MT capacity, confined to China market (preferred by China and Yukos) called the “southern route.”

3. Russian Energy Ministry and energy experts' proposal: A compromise to combine Japanese and Chinese projects into one project that would first go to Daqing, and then when there was sufficient oil, extend to Nakhodka, Beijing was agreeable to the compromise but Tokyo was not.

¹⁸ Wang Yiwei, “China's Foreign Oil is hanging by a Thread,” *Zhongguo Gongshang Shibao*, June 30, 2003, p.5, in FBIS, CPP20030730000198.

¹⁹ Wang Chun and Qi Yanqiu, “Strategic Considerations on establishing China's Future Oil Security System,” *Duiwai Jingji Maoyi Daxue Xuebao* no.2, March 31, 2001

²⁰ FBIS Report, “China: Mapping Out New Oil Strategy to Avert Oil Crisis,” in FBIS, April 4, 2003, CPP20030404000159.

The Chinese had thought that the feasibility study was finished, and that the Sino-Russian agreement that had been signed in Moscow in May 2003 was a final contract, but it was only a general agreement on basic principles signed between Yukos and CNPC without a final decision by the Russian government on the pipeline feasibility study. According to the *Nezavisimaya Gazeta*, controlled by Boris Berezovskiy, private Russian companies must act on their own when the Russian state fails on energy policy.²¹

Political struggles over the three proposals all took place within Russia—struggles over the Russian Energy Strategy to 2020, struggles between Transneft and YUKOS, struggles between the Russian government and the Russian oil companies. In May 2003, the Russian Energy Strategy to 2020 had been “largely approved.” It was originally reported to have an Angarsk-Nakhodka pipeline in it. Some reports claimed it included both projects: Entering the Asia Pacific market will create the need to develop the pipeline system to the East to China and Sea of Japan. The construction oil and gas pipelines in a single technological corridor in this region best serves the interests of the state, the socio-economic development of Eastern Siberia and the Far East, and comprehensive development of mineral resources.

Thus, the Russian government seems to have opted for the compromise proposal. Yet everything depended on the unending feasibility study (or perhaps numerous feasibility studies) that after nine years still did not have closure. Transneft claimed the decision would be made 2 weeks after the energy strategy was final. Rosneft proposed that its gas pipeline be integrated with the YUKOS oil pipeline in the southern route as a means to make the project more economically feasible. Rosneft, however, is more supportive of the northern route. Tyumen Oil Co. manager Sergei Tulinov claimed, “A feasibility study has not yet been carried out for any project in the region and as there are no feasibility studies, there is no sense in talking about transport schemes.”

The original rationale for a Sino-Russian oil pipeline years ago was that, because Sino-Russian trade driven by market forces had not expanded as expected, what it needed was “mega-project” to “kick-start” bilateral economic and trade relations. The pipeline became the mega-project. Why a nine-year feasibility study can never find closure is a consequence of both sides evolving away from planned economies, but not necessarily in coordination with each other, so that the concept of “economic feasibility” has different meanings

²¹ M.Borisova and P.Orekhin, “China will Grow on Russian Oil,” *Nezavisimaya Gazeta*, May 29, 2003

over time. In the past, Soviet and Chinese planners would have worked out a mega-project without a cost-benefit analysis. However, unlike Russian and Chinese energy decisions made under the old systems, economic feasibility is a more important criterion than it was nine years ago.

Entering into the equation during summer 2003 was the “YUKOS Affair,” which came to be referred to as the “Kremlin versus Yukos war” and indicated a crisis in relations between the Russian State and business. Although there were, much larger issues involved than the question of pipelines, this attack on YUKOS made the southern route seem less viable.²²

Local Considerations in Primorye

The pipeline became an issue for Primorye in summer 2003. Primorye Governor Sergei Darkin, in trips to Tokyo and meetings with Japanese officials in Vladivostok, lobbied for Northern route. A Primorye delegation on a visit to Tokyo met with Japan’s Foreign Minister, the METI Minister, and the Japan National Oil Corporation. Possibly, as a result of his efforts, the northern route came to include an oil refinery in one of Primorye’s ports. Although the decision would not be made in Primorye, the Japanese lobbied at all levels of government. A delegation from the Japanese Association for Trade with Russia and Eastern Europe (ROTOBO) and Keidanren visited in June 2003 to further economic links between Primorye and Japan. Governor Darkin expressed his distrust of YUKOS, accusing the company of intentionally underestimating resources as a means of promoting the southern route.

Zolotoy Rog reported that the Russian public had little information about the choice of a Chinese or Japanese pipeline and believed that the Russian oil companies were withholding information. Conferences were organized by the krai administration and UNESCAP to discuss local financial and environmental impacts of the project. In a July meeting between Putin and Darkin, the Primorye Governor argued for the need for a political solution, which would define Primorye’s future and integrate the krai into the Asia-Pacific.

In August 2003, a joint Russian-Japanese group began work on a feasibility study for the northern route with the promise the study would be finished by December 2003, remarkably fast given the nine years the Sino-Russian feasibility study has taken. The Russian Energy Ministry in late August 2003 asked the Chinese side to postpone the August 27-29 scheduled meeting of the

²² The YUKOS Affair and the Consequences for Russia’s Future,” *Novoe Vremya*, August 24, 2003

Subcommittee for Energy Cooperation of the intergovernmental commission. The committee's agenda would have focused on the pipeline in preparation for the September 22 meeting between Prime Minister Mikhail Kasyanov and premier Wen Jiabao. Officially the ministry claimed the feasibility study for pipeline was not yet finished., but also confirmed speculation that Moscow would shift to the northern route, not a decision the Ministry would have made, giving the appearance of a highly politicized decision-making process. Rather than being in control of the bargaining, Russia publications warned that Russia was allowing itself to be a card to be played in a high-stakes geo-political game between Japan and China.²³

In early February 2004, The Russian Dep. Foreign Minister Aleksandr Losyukov had announced that Russia was considering several options, not mutually exclusive, and would "give priority to its own interests when selecting which option to follow" rather than posing it is a choice between China and Japan.²⁴ Transneft presented a plan that it announced was a completely new export pipeline: it begins at Taishet, extends to Buryatia further away from lake Baikal, and then follows that path of the earlier Angarsk-Nakhodka route. The pipeline would be 4,130 kilometers, transport 56MMT/year, and have 32 pumping stations (13 have storage facilities). This Transneft plan had gotten the approval of local governments in Primorye, Khabarovsk, and the Amur region. An alternative plan had been drawn up by the Sakha Republic (Yakuta), Gazprom, Surgutneftegaz, and the Natural Resources Ministry. Their route would construct a single network, combining oil and gas pipelines, 6, 224 kilometers that linked all oil and gas fields in Yakuta, Irkutsk, and Krasnodarsk, ending in Nakhodka.²⁵

The Russian retreat from the southern route posed problems for Chinese domestic planning. China had put oil imports from the Russian pipeline into its current five-year plan (2000-2005). During Hu Jintao's May 23 visit to Moscow, Putin had expressed much optimism on future energy cooperation and partnership, but also seemed to distance the issue from politics when he said "it is up to experts to decide on the construction of oil & gas pipelines from Russia to China and their routes." A few days later, Putin and Koizumi in St.

²³ Yuriy Aleksandrov, "Japan Counterattacks: Intensity Rises in Battle between Two Asian Superpowers over Russian Oil Pipeline," *Nezavisimaya Gazeta*, August 22, 2003, in FBIS, CEP20030822000031

²⁴ ITAR-TASS, February 11, 2004, in FBIS, CEP20040212000278

²⁵ *Interfax Oil & Gas*, March 25-April 1, 2004

Petersburg also talked energy projects, with Koizumi still lobbying claiming, “I told President Putin that Japan’s Business sector is interested in the Nakhodka pipeline.”

Chinese Rethinking Post Angarsk

In June 2003, Chinese analysts had called for adjusting China’s oil strategy in response to the aftermath of the Iraq War. The “going abroad” strategy was presented as a must in order for China to avert an oil crisis. Although the Central Committee had directed Chinese oil companies to go abroad in 1999, the “struggle for Angarsk” challenged the “going abroad” strategy. Because the Middle East appeared unstable, Chinese oil companies diversified into Australia, Central Asia, Southeast Asia, and North Africa.²⁶ The “struggle for Angarsk” had led Chinese to rethink whether the Sino-Russian strategic partnership could ensure Chinese energy security. This had followed several other incidents: CNPC was forced to give up participation rights in the auction of Russia’s Slav Oil Company; CNOOC was shut out of the North Caspian Sea Project. Analysts argued that China would have to draw lessons from other major oil-consuming nations, the US and Europe, for methods for dealing with oil-producing nations, and change its oil strategy.²⁷

Those who advocated energy cooperation elaborated further on a cooperative strategy. A meeting of the Chinese Society of Asia-Pacific Studies in August 2003 was an appropriate forum. Yu Xintian viewed the establishment of an East Asian ASEAN+3 network for energy cooperation a logical follow-on regional institution building to the financial network already created to prevent another regional financial crisis. The benefits were many: Russian Far Eastern oil would reach Southeast Asia through Northeast Asia; Indonesian and Malaysian natural gas transported to Northeast Asia; power generation from the Greater Mekong river basin; joint exploration of South China Sea oil and gas resources; the creation of a “cooperation mechanism” between East Asian consumers and Middle Eastern producers. East Asian identity would be the glue for regional integration.²⁸

²⁶ Li Dingxin, “Fighting for Oil Pipeline Tests China’s Energy Policy,” *Jingji Gankao Bao*, August 8, 2003, in CPP20030813000222

²⁷ Zhou Yonggang, “China’s Oil Strategy needs to be repositioned,” *Zhongguo Gongshang Shibao*, June 3, 2003, p.2, in CPP20030709000153

²⁸ Yu Xintian, “East Asian Cooperation in the Early 21st Century,” paper presented at the Fifth Annual Meeting of the Chinese Society of Asia-Pacific Studies, in *Dangdai Yatai*, no.10 October 15, 2003, p.3-9

In August 2003, *Zhongguo Nengyuan* pointed out those solutions to Chinese energy issues required sustainable energy strategies including energy conservation, clean coal technology, and optimization of energy utilization. The Energy Research Institute had been advocating energy rationality since the early 1980s, and this was still the solution to avert an energy crisis.²⁹ The post-Angarsk atmosphere created a more receptive audience than the ERI had encountered before.

In September 2003, it was announced that China was “gradually formulating a brand plan for its energy strategy” because *the Angarsk-Daqing project had problems and could not be relied upon*. A work report had been presented to Premier Wen Jiabao by Qu Guangming on May 26, 2003, for the “Strategic Research Group for Sustained Development of Petroleum in China” of the Chinese Academy of Engineering. (This group had begun in early 2002). It rapidly increased in size as researchers from CNPC, Sinopec, CNOOC, Sinochem joined until it had over 100 experts.³⁰

Another report by a different research group mapped out a long term energy strategy to be used for planning by the State Development and Reform Commission (presented June 9, 2003). The group had identified 10 new oil and gas development zones domestically it would conduct a feasibility study on the Ordos basin, and it would investigate third-nation oil and gas resources. Both research groups emphasized development of both domestic and international resources.³¹

In November 2003, *Guoji Luntan* published an article on China’s oil diplomacy, claiming that the *struggle for Angarsk* demonstrated that China’s oil diplomacy lacked the capacity to manage sudden incident. Suggestions for strengthening capacity all focused on greater integration in the world oil economy: take a more active part in Middle East affairs, strengthen cooperation with peripheral states Russia, Central Asia, and Caspian, and strengthen cooperation with major oil-consuming states and international oil organizations by joining the IEA. All of this would augment China’s capacity to withstand oil shocks.³²

²⁹ Zhang Jianmin, “Sustainable Energy Strategy to Meet the Goal to Quadruple China’s GDP by 2020,” *Zhongguo Nengyuan* vol.25 no.8, August 8, 2003, p.1

³⁰ Chen Ting, “Sino-Russian Oil Pipeline has Obstacles and Takes Time, China Initiates New Energy Strategy,” 21 *Shiji Jingji Baodao*, September 22, 2003

³¹ Ibid

³² Gong Xuzheng, “Viewing China’s Oil Diplomacy from the ‘Angarsk-Daqing Line’ Tussle,” *Guoji Luntan* no.6 November 10, 2003, p.46-52, in CPP20031217000209

A November 2003 conference on “China’s Energy Strategy and Reform” was held in Beijing. Energy planners blamed the current crisis on governmental decisions made a decade before when the Ministry of Energy was abolished. Since then, all efforts at reforming the oil industry and efforts to formulate a sustainable energy policy had disappointed. Since 1993, China’s energy industry had passed through several stages of market-oriented reforms, attempting to create a market-oriented energy policy for without a Ministry of Energy managing it, but results had been disappointing. Energy problems in recent years, termed a “petroleum crisis,” encouraged these planners to once again call for unified state institution to manage energy. Although an Energy Bureau, headed by Xu Dingming, had been established in March 2003, it was rumored to lack authority and a clear mandate. Xu is also in charge of the National Petroleum Reserve Office.³³

That same month, the *Jingji Ribao*, relying on market solutions, advised that there was “no need to be overly concerned about strategic oil security” because

- the US, EU, and Japan were more vulnerable and had a larger oil security problem than China;
- higher oil prices promoted technological progress towards energy efficiency and sustainable development;
- although prices would rise, the crude oil supply in the world oil market was adequate;
- China would more energetically implement the going abroad strategy to acquire oil field resources in South America, Middle east, Russia, Central Asia, and Africa;
- China would emulate Japan, the US, and South Korea by creating a strategic petroleum reserve;³⁴

In 2003, Chinese crude oil imports were estimated to be 91.12 MMT and petroleum product at 28.24 MMT, up 31.3% and 38.8%, and costing a total of \$16.5 billion. These were sharp increases from 2002 at 69.4 MMT. These oil imports cost the country \$16.5 billion.³⁵ Energy shortages and blackouts were common, the worst in a decade. The coastal regions were especially hard hit in

³³ Wang Yichao, “China’s Energy Woes,” *Gaijing*, December 10, 2003

³⁴ Ji Xing *et al*, “Rising oil prices no cause for concern, but Chinese oil enterprises should pursue outward strategy more energetically,” *Jingji Ribao*, November 19, 2003, in FBIS, CPP20031119000072

³⁵ “Chinese Oil Imports Exceeds 100 Million Tons in 2003,” Xinhua, February 8, 2004, in CPP20040208000002

summer 2003. The coastal cities were said to be “racing” to build marine oil terminals to capture a larger share of oil imports. Chinese ports with deepwater marine oil terminals capable of handling supertankers were few: Qingdao, Zhoushan, Ningbo, Maoming and Zhanjiang.³⁶

In early 2004, Chinese contemplated responses to what was considered a looming oil crisis. Reformers were much more vocal and critical, and had a more receptive audience than they had in the early 1980s. The State Development and Reform Commission Minister, Ma Kai, stressed energy conservation, which had been officially promoted for 24 years but neglected in investment priorities that continually expanded supply instead. Energy conservation was now constituted as an energy security issue that required better state planning in the 11th five-year energy conservation plan.³⁷

Energy reformers criticized the planning approach. Zhao Jianping, energy specialist with the World Bank, argued that “The current energy shortage reflects the failure of the government’s command and control’ approach to address energy sector issues” because the bureaucracy is unable to adapt quickly enough to changing demand. The State Development and Reform Commission sits at the center of a web of control, regulating and supervising private participation in energy. The Commission had expected a 5% increase in power consumption, but instead demand had grown at 15%. Local governments were pressuring the Commission to accelerate its approval of power plant construction but it had imposed a 3-year freeze. Zhao claimed the Commission was under-funded and under-staffed, lacking capacity to do project analysis. He called for the government to move from making project decisions to a coherent energy policy framework, and to create an invest-friendly environment for companies.³⁸

Although China has always been dependent on the SLOCs passing through the Malacca Straits since it first started importing oil from the Middle East, it was at this time that China developed a “Malacca Strait Predicament” which was constituted a “crisis” requiring several measures:

1. Constitution of routes into Southeast Asia: the Bangkok-Kunming Mekong waterway, the Kunming-Bangkok highway, the Pan-Asian railroad,

³⁶ Olivia Chung, “Coastal cities race to Tap Soaring Oil Shipments,” *Hong Kong Standard*, Feb.5, 2004

³⁷ Ma Kai, “Vigorously Push forward Energy Conservation Work, Strive to Build Energy Conservation Society,” *Jingji Ribao*, Nov.4, 2003, p.6, in FBIS, CPP2003111000035

³⁸ Xie Ye, “Energy Sector Reform Urged,” *China Daily* (Internet Version), Jan.8, 2004

and the Nanning-Hanoi highway. All of these would “pave the way for China’s oil strategy.”

2. Constitution of a supertanker fleet with sufficient capacity; China depended on chartered vessels giving other countries control.

3. Construction of a powerful naval force to ensure security of the SLOCs.

4. A governmental report suggested that China, Japan, and South Korea jointly construct a canal, the Kola Canal, through Thailand’s Isthmus of Kra, an “Asian Panama Canal” of approximately 90-10 kilometers, depending on which route is chosen, which would reach the Andaman Sea.³⁹

The military used it as an opportunity to call for expansion of its budget, and perhaps its mission. PLA Deputy Chief of the General Staff Xiong Guangkai, in assessing the world situation following the Iraq War, advocated strengthening national defense and increasing defense budgets for reasons that included a sense that resource competition was escalating worldwide. China’s dependence on the Middle East for half of its oil imports required that Beijing take a strategic perspective in addressing energy problems.⁴⁰

An analysis supportive of the PLA and regional cooperation came from *Xiandai guoji guanxi yanjiusuo* which integrated energy and military security issues as it argued that under the impact of globalization a nation’s energy security is also a military issue not just an economic issue. China’s position was becoming increasingly vulnerable as its oil import dependence grew because it lacked the diplomatic and military influence of a country such as the US. The Chinese navy could not secure the SLOCs from the Middle East as the US navy could. The author felt China should not adopt an energy security policy modeled on the US and Europe, at least until it had expanded its naval capacity. “China must consider the needs of other energy-hungry countries in Asia, especially in northeastern Asia, as it formulated its energy security policy.” Japan in particular should benefit from China’s east-west natural gas pipeline, building a common bond through energy cooperation.⁴¹ It was unusual to discuss energy cooperation and military security in the same analysis.

³⁹ Zhang Yuncheng, “The Malacca Strait and World Oil Security,” *Huanqiu Shibao*, Dec.5, 2003, in FBIS, CPP20031217000202 Guo Ling, “Experts Suggest Need to Build a ‘Panarama Canal’ in Asia,” *Wen Wei Po*, Jan.14, 2004

⁴⁰ “Military Calls for Stepping Up National Defense Construction,” *Ming Pao* (Hong Kong) Feb.3, 2004

⁴¹ Zhang Wenmu, “China’s Energy Security and Policy Choices,” *Shijie jingji yu zhengzhi* no.5, May 14, 2003, p.11-16, in FBIS, CPP20030528000169

Cooperation with Japan was presented by reformers as a source of solutions for Chinese energy conservation, especially in the auto industry where escalating automobile utilization put pressure on demand for transport fuels.⁴² Cooperation with U.S. was publicly acknowledged by Vice Premier Zeng Peiyan during US Secretary of Energy Spencer Abraham's visit to Beijing in January 2004. The US-China Economic and Security Review Commission had held hearings in October 2003 on "China's Energy Needs and Strategies." Analysts at the hearing had urged greater cooperation with China since Chinese energy security policy was still in the process of formation.⁴³

Japanese newspaper noted that China's "Resource Diplomacy" had become more active. Japan National Oil Company (JNOC) observed that China was conducting exploration in 24 countries and planned to increase its stock pile from a few days to 50 days. JNOC saw China using resource diplomacy in a 'niche strategy' as

1. China's means to build a political and economic stronghold;
2. A hedge, such as diversification of supply, in case the United States closes up access to the oil market.⁴⁴

Li Zhidong, Chinese professor at Nagaoka University of Technology, was quoted as saying "Some people say Japan is trying to aid China's supply system. Since demand is most certainly going to increase, Japan and China should aim for cooperative ties." However, the "struggle for Angarsk" had led Japanese to call for a restructuring of Japan's energy strategy with greater emphasis on security.⁴⁵

Japan's Path

Japanese support for regional cooperation is not new. Japanese energy planners have long believed that Japanese energy security would only be attained when energy security for the Asian region as a whole, especially China,

⁴² Zhang Jifeng, "Chinese-Japanese cooperation in auto industry will create win-win situation, reduce competition for energy," *Guoji maoyi*, January 20, 2004, p.32-36, in FBIS, CPP20040213000167

⁴³ Kang Wu, "Outlook for Energy and Economic Developments in China," Hearings on "China's Energy Needs and Strategies," US-China Economic and Security Review Commission, October 30, 2003, Washington, D.C

⁴⁴ Toshu Noguchi, "China: World's Second-Largest Oil-Consuming Nation Uses Active 'Resource Diplomacy,'" *Snakei Shimbun* (internet version), Feb.11, 2004, in JPP20040212000002

⁴⁵ Ibid.

was attained. There were challenges to translating to thoughts of a few energy planners into Japanese national policy. There were challenges to socializing Chinese energy experts into the norms of a shared collective regional energy security, away from deeply ingrained nationalists, self-reliant approaches. The greatest challenge was establishing a regional leadership position by providing an international public good—regional energy security—the consumption of which by all nations does not diminish its availability to others.

A regional framework had begun to emerge following Prime Minister Koizumi's announcement in January 2002 that Tokyo intended to form an Asian Energy Community, using ASEAN+3 as the framework. Tokyo's project would create an "international public good," regional energy security, for all Northeast Asian countries. Tokyo, as provider of this international public good, would take on a regional leadership role in an area that is vital to Japanese national interests and to regional security and stability. China has benefited from this regional international public good.⁴⁶

It was in summer 2001 that the Advisory Committee on Energy and Natural Resources had issued a report for the Ministry of Economy, Trade and Industry (METI) that recommended. *Japan's energy security be situated within the Asian region's energy security to be considered as a whole.*⁴⁷ The new plan revised downward estimated Japanese oil demand, reduced nuclear power construction, and expanded utilization of natural gas from 13% to 20% of total energy consumption to meet Kyoto targets. The plan recommended strengthened energy conservation and greater investment in Middle Eastern producer countries, as the relationship between the Middle East and East Asia was increasingly interdependent, kept stable by a producer-consumer dialogue.⁴⁸

1. The Japanese Ministry of Foreign Affairs issued a statement on Japan's approaches for energy security in August 2001, outlining six issues of Japanese energy diplomacy:

2. Maintain a strategic oil reserve for emergency response

⁴⁶ For further elaboration on Japan's role in the region see Christoffersen, "The Politics of oil Security in East Asia," presented at an Institute for Global Conflict and Cooperation conference, "Global and Regional Security Governance," University of California, San Diego, October 3, 2002

⁴⁷ "editorial: energy security requires all Asian nations' Cooperation," *Asahi Shimbun*, August 2, 2201, www.asahi.com/english/op-ed/K2001080200582.html

⁴⁸ Tsutomu Toichi, Managing Director, IEEJ. "Japan's Energy policy and its implications for the Economy" IEEJ (April 2002), p.12-13

3. Maintain friendly relations with producing countries and the Middle East, and countries along the SLOCs

4. Diversify energy supply and oil supply sources. Develop new sources such as Iran and Sakhalin. Increase natural gas utilization.

5. Energy savings and efficiency

6. *Energy security for Asia through international organizations* such as IEA, APEC, Energy Working Group, and bilateral energy consultations. Establishing a legal framework through the Energy Charter Treaty. Deepening interdependence and cooperation with Asian countries.

7. Environmental issues addressed in conjunction with energy issues. The Kyoto Protocol to reduce greenhouse gases.⁴⁹

A senior Japanese Foreign Ministry official on May 8, 2002, announced that Japan urgently needed to lay the foundations for an “Asian Community.” By this, he meant Asian economic integration with standardized economic rules throughout the region. The Japan-Singapore FTA that the Japanese Diet had just approved would be the model for further agreements. Japan had in the past been cautious about promoting an “Asian Community” because of expected strong objections from China. However, now that China was in the WTO, had just signed a proposal for studying a China-ASEAN FTA in November 2001, and would economically integrate further with the region, the time was ripe for the Community.⁵⁰

In July 2003, the Managing Director of the Institute of Energy Economics, Tsutomu Toichi, pointed out that because of several trends—the insecurity of 9/11, increasing regional economic integration—Japanese energy policy was in transition, thus “...new energy security measures that include the greater Asian region are needed to replace those based on unilateral thinking.”⁵¹ Toichi argued Japan needed to coordinate energy policy and security policy, and coordinate energy diplomacy and environmental diplomacy. Japan needed to develop greater influence with Middle Eastern producers by building up cooperative relations with China, Korea, and Taiwan to increase the bargaining

⁴⁹ Ministry of Foreign Affairs of Japan *Issues of Japan's Energy Diplomacy: Approaches for Energy Security*. August 2001, www.mofa.go.jp/policy/energy/diplomacy.html

⁵⁰ “Japan Building’ Asian Community’: Official,” *Jiji Press in English* (Tokyo), May 8, 2002, in FBIS, Doc. ID no.: JPP20020508000083

⁵¹ Tsutomu Toichi, Managing Director, Chief Executive Economist. *Energy Security in Asia and Japanese Policy* The Institute of Energy Economics Japan, July 2003, found at: <http://eneken.ieej.or.jp/en/index.html>.

leverage of a Northeast Asian bloc. Oil and natural gas pipelines from the Russian Far East would also increase leverage with the Middle East. His proposals included an Asian version of the International Energy Agency (IEA). He expressed frustration with the China-Russia negotiations for a natural gas pipeline as “mired in disagreements over selection of a pipeline route, pricing, and various other issues,” which he claimed had led Russia to encourage South Korea and Japan to become more actively involved rather than passively waiting to participate in a Sino-Russian pipeline.⁵²

Suspicion of Japanese Intentions emerged in the popular Chinese press. In summer 2003, *China Daily* was openly referring to a Sino-Japanese rivalry for Russian oil, recognizing that Japan had lobbied heavily, and dangled financial incentives. The Chinese suspected that Japan was “playing on Russia historical fears of China.” The newspaper referred to Governor Darkin’s office as stacked with Japanese electronics, gifts from the Japanese lobbying for the Northern route. Nevertheless, the Chinese had felt in southern route had the best chance because: it was the most cost-effective and furthest along in planning.⁵⁴ *Jingji Cankao* claimed “Japan’s muddling” in the YUKOS-CNPC deal was testing China’s energy strategy, which was still in the process of being formulated while Japan had a “matured energy strategy” and a strategic reserve of 172 days (China has not yet created a strategic reserve).⁵⁵

Prime Minister Kasyanov signed the Russian Energy Strategy 2020 on September 5, and had announced on September 6, 2003 that further deliberations were needed on the pipeline decision.⁵⁶ The Russian Natural Resources Ministry had issued a negative environmental assessment on both proposed pipeline routes. On the same day, Wu Bangguo Chairman of China’s NPC, was in Tokyo giving a speech on “Strengthening Sino-Japanese Economic Cooperation and Developing Sino-Japanese Good-Neighborliness and Friendship.”⁵⁷

NE Asian energy cooperation – Formulation of rules

It is paradoxical that while Tokyo was promoting an East Asian energy community, it was also making more public its interest in Russia’s Angarsk oil

⁵² Ibid.

⁵³ Kyodo, August 27, 2003

⁵⁴ “Old Rivalry Flares as China, Japan Vie for Russian Oil, *China Daily*, July 13, 2003

⁵⁵ Li Dingxin, “Fighting for Oil Pipeline Tests China’s Energy Policy,” *Jingji Cankao Bao*, August 8, 2003

⁵⁶ Interfax, September 5, 2003

⁵⁷ Xinhua, September 5, 2003

pipeline and Kovykta gas pipeline projects, placing it in competition with the Chinese projects there. By summer 2003, as Tokyo appeared to be competing with Beijing for a pipeline route from Russia, discussion of regional cooperation could have been expected to be displaced by resource competition. Some journalists proclaimed that this was a resource war between China and Japan as they compete for scarce oil resources. Yet China and Japan continued to discuss Northeast Asian regional energy cooperation.

The Institute of Energy Economics Japan published a paper in early 2003 stating the “rules of cooperation” for Northeast Asian energy cooperation. The region was faced with the challenge of whether to cooperate or compete. The IEEJ paper argued that cooperation should happen at the governmental level, with government support for markets and private companies, creating an even playing field for competition, which should happen at the business level.

The “rules of cooperation” for Northeast Asian energy cooperation were:

1. Every country must clearly recognize that each benefited from cooperation as all were in the same situation and in the same region. (regional identity rule)
2. Every country should take “equitable responsibility” if it were to obtain its share of benefit. (the no-free rider rule)
3. Regional institutional design for cooperation must realize a win-win situation. (co-prosperity rule)⁵⁸

At the November 2003 Northeast Asia Petroleum Forum, one Japanese analyst suggested additional rules that included the Angarsk issue:

4. Energy security through cooperation between East Asian and West Asian countries, between energy consumers and producers. (Northeast Asian unity in dialogue with Middle East rule)
5. Preparation of energy infrastructure, especially in “continental in land region.” (Northeast Asian infrastructure as an international public good rule)
6. Construction of an international framework covering the upstream to downstream supply network in East Siberia and Russian Far East. (Russian resources are an international public good rule)
7. Preparation of international rules as a foundation for work with East Siberia and RFE. (Russian resource development would follow mutually agreed upon rules)

⁵⁸ Kensuke Kanekiyo, *Toward Energy Cooperation in Northeast Asia* Institute of Energy Economics Japan, March 2003, found at: <http://eneken.ieej.or.jp>

8. Strategic issues for regional cooperation: oil stockpiles; stabilization of crude oil prices and oil market; development of a Northeast Asian oil market. (oil is both a strategic and market issue rule)

9. Asia's three E's: economic growth, energy security and environmental conservation. (three E's rule)

10. Formation of a common perception among Asian consumer countries that would unite them in government and private sector policymaking.⁵⁹ (policymaking based on common identity rule)

Another presentation insisted that China, South Korea, and Japan were not mere competitors but had common concerns and goals including diversification of supply through projects such as Angarsk (both pipelines), and relations with the Middle East (Saudi Arabia and Iran). It proclaimed that co-prosperity in Northeast Asia was possible.⁶⁰ Still another Japanese presentation analyzed the East Siberian pipeline project as comparable with Sakhalin I & II projects, which would benefit all of Asia by increasing the region's bargaining power with the Middle East and consequently reducing the "Asian premium" for all Northeast countries.⁶¹

Chinese participants at the November 2003 Forum discussed achieving win-win solutions,⁶² and implementing the "going out" strategy further,⁶³ but it was unclear whether they contributed to rule formation for a Northeast Asian multilateral energy regime. Chinese have previously commented favorably on a Northeast Asian energy community but referred to the formula (regional division of labor) rather than specify rules for cooperation. Also with regard to Russian resources in this formula, Chinese analysts have stated "China has the geographical advantage to utilize the energy resources of these (Russian)

⁵⁹ Yoshiki Ogawa (IEEJ), "Long-term Views and Strategic Issues on Oil Supply-Demand in Asia," Northeast Asia Oil Forum, November 5, 2003, Tokyo, p.36, 40-46 Found at: <http://eneken.ieej.or.jp/en/seminar/other/NAPF/NAPFrecords.htm>.

⁶⁰ Yasushi Kono (Nippon Oil Corp.), "From Competition to Co-Prosperity," Northeast Asia Oil Forum, November 5, 2003, Tokyo, p.36, 40-46 Found at: <http://eneken.ieej.or.jp/en/seminar/other/NAPF/NAPFrecords.htm>

⁶¹ Taro Shoji (Japan Petroleum Dev.Assoc.), "Energy Related Projects in Northeast Asia," Ibid.

⁶² Shen Wenxiang (CNOOC), "Holding onto Opportunities, Enlarging Cooperation, Promoting the Development of China Offshore Oil Industry," Northeast Asia Oil Forum, November 2003, Tokyo.

⁶³ Zhao Houxue (Sinopec), panel "Present situation and development strategies of the oil industry," Ibid

adjacent areas,”⁶⁴ reflecting the thinking of *zhoubian waijiao* rather than abstract rulemaking for the region.

Post-Angarsk: Reaffirming the Energy Community

International organizations such as the IEA, and research institutes such as ERINA, addressed the issue of Asian energy security under the influence of the Iraq War. The IEA held a workshop with ASEAN in September 2003 to give support to ASEAN energy policy makers in developing their national and regional emergency preparedness response measures and to revise the 1986 ASEAN Petroleum Security Agreement (APSA). The Malaysian participant noted that his country was implementing the “Hiranuma Initiative” for oil security proposed at the September 2002 Osaka ASEAN +3 Energy Ministers Meeting.

In October 2003, the APEC leaders endorsed a US initiative on energy security, “Action Plan to Enhance Energy Security in the Asia-Pacific Region,” to expand trade in natural gas (LNG), promote investment in alternative energy sources, and create a real-time information sharing and coordination system in the Asia-Pacific for emergency response.⁶⁵ The emphasis on LNG, referring to the Asia-Pacific as the “heart of the global LNG market, with half of the world’s exports and 70 percent of imports.” Indicated the US was less interested in natural gas pipelines.

The February 2004 meeting of the Northeast Asia Economic Conference/ Northeast Asia Economic Forum (NAEF) brought all of Northeast Asia together to discuss regional cooperation, ASEAN+3, pipelines, and the “Grand Design for Northeast Asia” in energy, transport and environment. The need for a Northeast Asia Development bank was addressed as a necessary prerequisite for regional infrastructure development.

The 2004 Niigata Energy Forum, held in conjunction with the NAEF, addressed a cooperative approach to the energy security, economic development and environment triad. The energy panel discussed the Northeast Asian gas pipeline as the basis of creating an Asian energy community. ERINA had a two-year research project to identify cooperative policies and broaden the policy perspective of individual governments to think more regionally on energy cooperation.⁶⁶

⁶⁴ Qingzhe Jiang and Lei Song, “Establishing a Northeast Asian Energy Community: China’s Perspective,” in *A Vision for Economic Cooperation in East Asia: China, Japan, and Korea*, Cho, Kim & Lee, eds. (Seoul: Korea Development Institute, 2003), p.226

⁶⁵ APEC Endorses Initiative to Enhance Energy Security, “found at: <http://usinfo.state.gov/gi/Archive/2003/Oct/22-361237.html>

⁶⁶ <http://www.erina.or.jp/En/E/Hpenergy.html>

In March 2004, A Japanese presentation at the 8th International Conference on Northeast Asian Natural Gas Pipeline, focused on Northeast Asian energy demand and supply as whole, asserting that because of interdependence, “China’s problem (energy demand) is the region’s problem to be mutually solved.”⁶⁷ Solutions he argued need government initiative the energy security and cleaner environment provided by a regional natural gas pipeline could not be calculated in a commercial project evaluation. Governments were responsible for proper market design. The project was too large for the private sector.

Conclusion

China, despite a decade as a net oil importer, had not fully developed the identity, the national interests, or the policies of a net oil importer that would have allowed for participation in a Northeast Asian multilateral energy regime. The need for an oil law had been under consideration since 1996 after China became a net importer of crude oil in 1995, which was more of a shock than when it became a net importer of petroleum product in 1993. In October 2001, an energy analyst from the SDRC had claimed to have submitted a draft for an oil law to the NPC to ensure Chinese oil security and to create a regulatory framework for the domestic oil market⁶⁸

Nevertheless, as late as March 2004, China’s National People’s Congress was still calling for new laws to control petroleum demand and create a strategic oil reserve in order to respond to “the oil crisis.” The NPC felt legislation was needed to control the domestic oil market. NPC lawmakers wanted oil conservation slogans to be codified into law so that those that squander oil are punished.⁶⁹

Also in March 2004, the *China Daily* claimed that China was pinning its hopes on the Sino-Russian oil pipeline from Angarsk to Daqing, despite all the indicators throughout 2003 that the southern route would not be chosen, and the announcement the day before that Russia had chosen an alternative route

⁶⁷ Kensuke Kanejiyo (IEEJ), “Diversifying Energy Sources of Northeast Asia,” presented at the 8th International Conference on Northeast Asian Natural Gas Pipeline”, Shanghai, March 8, 2004

⁶⁸ Gong Zhengzheng, “PRC Analyst Views State Law Proposed to Strengthen Oil Security,” *China Daily*, (Business Weekly Supplement), October 30, 2001

⁶⁹ “Chinese Legislations Propose Law on development of Oil Resources,” *Xinhua*, March 11, 2004

to Nakhodka rather than to Daqing.⁷⁰ Although the popular Chinese press had posed the issue as a choice between the Chinese pipeline, Russian energy analysts faced a more complex issue.

The real utility for Chinese oil security of the “Struggle for Angarsk” was the way it mobilized the country to address oil scarcity issues coherently, a step necessary for China to promulgate an oil law and to finally take conservation seriously, and to participate with greater transparency in a Northeast Asian energy regime.

A reading confined only to the popular press in China, Japan and the US on the “Struggle for Angarsk” would be misleading. Unlike popular sentiments amplified by the media, the epistemic community of Northeast Asian energy experts from China, Japan and South Korea continued on as they had before 2003, meeting periodically and continuing to construct rules for energy regime formation. The Angarsk issue, rather than interrupt this process of regime formation, was a crisis that required participants to adapt the regime to the challenges presented incorporate the issues into the rules, and in the process strengthens the regime.

⁷⁰ Xie YE, “Nation Pins Hopes on Oil Project with Russia,” *China Daily*, March 23, 2004, p.9